

**REPORT OF THE AUDIT OF THE  
BATH COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**June 16, 2006**

**ROSS & COMPANY, PLLC  
Certified Public Accountants**

**800 Envoy Circle**

**Louisville, KY**

**Telephone (502) 499-9088**

**Facsimile (502) 499-9132**

**[www.rosscpas.com](http://www.rosscpas.com)**



## CONTENTS

PAGE

|  |    |
|--|----|
| INDEPENDENT AUDITOR’S REPORT .....   | 1  |
| SHERIFF’S SETTLEMENT – 2005 TAXES.....   | 3  |
| NOTES TO FINANCIAL STATEMENT .....   | 5  |
| COMMENT AND RECOMMENDATION .....   | 9  |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON<br>COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT<br>PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS..... | 10 |



**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
Facsimile (502) 499-9132  
[www.rosscpas.com](http://www.rosscpas.com)

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Walter Shrout, Bath County Judge/Executive  
Honorable Randall Armitage, Bath County Sheriff  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the Bath County Sheriff's Settlement - 2005 Taxes as of June 16, 2006. This tax settlement is the responsibility of the Bath County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bath County Sheriff's taxes charged, credited, and paid as of June 16, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2006, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Walter Shrout, Bath County Judge/Executive  
Honorable Randall Armitage, Bath County Sheriff  
Members of the Bath County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
August 16, 2006

BATH COUNTY  
 RANDALL ARMITAGE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

June 16, 2006

| <u>Charges</u>                         | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate                            | \$ 257,381          | \$ 670,011                          | \$ 826,069          | \$ 321,113         |
| Tangible Personal Property             | 10,344              | 25,631                              | 33,395              | 37,927             |
| Intangible Personal Property           |                     |                                     |                     | 16,170             |
| Franchise Corporation                  | 61,182              | 163,036                             | 197,142             |                    |
| Bank Franchises                        | 31,844              |                                     |                     |                    |
| Penalties                              | 2,703               | 7,325                               | 9,020               | 3,660              |
| Adjusted to Sheriff's Receipt          | (55)                | (160)                               | (194)               | (254)              |
| Gross Chargeable to Sheriff            | <u>\$ 363,399</u>   | <u>\$ 865,843</u>                   | <u>\$ 1,065,432</u> | <u>\$ 378,616</u>  |
| <u>Credits</u>                         |                     |                                     |                     |                    |
| Exonerations                           | \$ 2,711            | \$ 7,247                            | \$ 8,700            | \$ 3,760           |
| Discounts                              | 3,614               | 9,411                               | 11,601              | 5,137              |
| Delinquents:                           |                     |                                     |                     |                    |
| Real Estate                            | 12,275              | 31,917                              | 39,396              | 15,314             |
| Tangible Personal Property             | 262                 | 611                                 | 845                 | 491                |
| Intangible Personal Property           |                     |                                     |                     | 383                |
| Total Credits                          | <u>\$ 18,862</u>    | <u>\$ 49,186</u>                    | <u>\$ 60,542</u>    | <u>\$ 25,085</u>   |
| Taxes Collected                        | \$ 344,537          | \$ 816,657                          | \$ 1,004,890        | \$ 353,531         |
| Less: Commissions *                    | <u>14,930</u>       | <u>27,900</u>                       | <u>40,196</u>       | <u>15,313</u>      |
| Taxes Due                              | \$ 329,607          | \$ 788,757                          | \$ 964,694          | \$ 338,218         |
| Taxes Paid                             | 329,190             | 786,663                             | 963,566             | 336,624            |
| Refunds (Current and Prior Year)       | <u>636</u>          | <u>1,892</u>                        | <u>2,023</u>        | <u>824</u>         |
| Due Districts or (Refunds Due Sheriff) |                     | **                                  |                     |                    |
| as of Completion of Fieldwork          | <u>\$ (219)</u>     | <u>\$ 202</u>                       | <u>\$ (895)</u>     | <u>\$ 770</u>      |

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
 RANDALL ARMITAGE, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2005 TAXES  
 June 16, 2006  
 (Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 1,124,756 |
| 4% on    | \$ | 1,189,593 |
| 1% on    | \$ | 195,266   |

\*\* Special Taxing Districts:

|  |    |                   |
|--|----|-------------------|
| Library District                       | \$ | 98                |
| Health District                        |    | 42                |
| Extension District                     |    | 61                |
| Soil Conservation                      |    | (32)              |
| Ambulance                              |    | 63                |
| Fire                                   |    | (30)              |
|  |    | <hr/>             |
| Due Districts or (Refunds Due Sheriff) | \$ | <u><u>202</u></u> |

The accompanying notes are an integral part of this financial statement.



BATH COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 16, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 16, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 16, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2005 through June 16, 2006.

Note 4. Interest Income

The Bath County Sheriff earned \$1,363 as interest income on 2005 taxes. As of August 16, 2006, the Sheriff owes \$14 in interest to the school district and owes \$14 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Bath County Sheriff collected \$17,985 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Bath County Sheriff collected \$191 of advertising fees and \$66 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office

COMMENT AND RECOMMENDATION



BATH COUNTY  
RANDALL ARMITAGE, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of June 16, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Sheriff's Response: None*

PRIOR YEAR:

The Sheriff's office had a lack of segregation of duties. *This has not been corrected, and the lack of segregation of duties has been reported as a reportable condition and a material weakness in the current year audit.*

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
Facsimile (502) 499-9132  
[www.rosscpas.com](http://www.rosscpas.com)

The Honorable Walter Shrout, Bath County Judge/Executive  
Honorable Randall Armitage, Bath County Sheriff  
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Bath County Sheriff's Settlement - 2005 Taxes as of June 16, 2006, and have issued our report thereon dated August 16, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is also considered to be a material weakness.

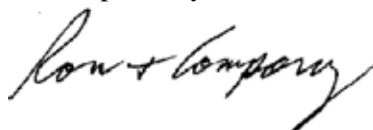
Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of The  
Financial Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bath County Sheriff's Settlement - 2005 Taxes as of June 16, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -  
August 16, 2006

